Somers, Robert

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No. 2

SPEECH

ON

CURRENCY AND BANKING,

DELIVERED BEFORE THE

GLASGOW CHAMBER OF COMMERCE,

AT THE

Annual General Meeting held on Tuesday, Jan. 14, 1862.

BY

ROBERT SOMERS.

GLASGOW:
JAMES MACLEHOSE, 61 ST VINCENT STREET.
1862.

PRICE SIXPENCE.

RESOLUTIONS

Moved in the Chamber by Mr Robert Somers, and seconded by Mr Alexander Reid:—

"That this Chamber, adhering to the opposition which it gave to the Monetary Legislation of 1844 and 1845, is of opinion, that sufficient time has now elapsed to bring the practical working of that Legislation to the test of experience, and to afford ample grounds for inquiring how far the panics, the commercial inflations and collapses, the repeated suspensions of the Act of 1844, and the unprecedented fluctuations of the rate of discount which have marked the last eighteen years, are the result of the principles then imported by law into the currency and banking system of the United Kingdom.

"That the Acts of 1844 and 1845 introduced the principle, hitherto unheard of and unexampled, of expanding and contracting the Notes of the Bank of England with the imports and exports of gold, which is neither founded on just distinctions in Monetary science, nor necessary or expedient in practice; and that, on the pretence of developing this novel theory, the said Acts imposed restrictions and established privileges in the business of Banking, amounting in Scotland to a practical prohibition of any new Banking Company, which are directly contrary to the general commercial policy of the country.

"That the Chamber strongly urges the Directors to give their attention to this important subject, and to take such steps for promoting a necessary change in the Legislation referred to as to the Directors may seem fit."

SPEECH

ON

CURRENCY AND BANKING.

It is not with any intention to dogmatise on a question of much debate, to propound any new theory, or even to commit the Chamber to conclusions which might hamper in future a spirit of the freest inquiry, that I venture to propose the resolutions of which notice has been given. The Chamber has on many previous occasions declared its opinion on the subject of currency and banking, and, in so doing, with a spirit which, I think, is worthy of all admiration, has been guided by the experience gathered from the banking institutions of our own part of the kingdom, and by the scientific deductions of the first and greatest of political economists, our countryman Adam Smith. The ideas derived from these sources are certainly of a very simple and intelligible kind. Every man of business may understand them. What Adam Smith taught, and what the bankers and commercial men of Scotland came at length successfully to practise, may be stated in a few words.

It was considered to be the part of the State, in the first place, to determine what its money was to be, what was to be the standard of value, and the current coin into which commodities and services in their transfer from man to man were to be resolved. The State having done this, and having set up a mint where money of the stamp thus determined upon might be produced to demand, its functions were deemed to be practically at an end, and it became the part of bankers and others to deal in money as men dealt in any other commodity. If a banker or banking company, by their good credit and known wealth, could prevail on the public to take little pieces of stamped paper payable into cash on demand, it was held that the State need not

interfere, except only to fix some limit to the smallness of the sums for which such notes were issued; and that in the simple provision of convertibility on demand there was the most perfect check which could be conceived, not only against any over-issue of notes, which was the least of the matter, but also against excesses of discount and credit, which is the real source of evil in banking, and in the management of the loanable capital of a country. It was not held that a bank of issue might not, for a day or two, press out more notes than could be absorbed in the circulation, but only that if such a thing did take place, the notes would come back immediately for payment, that the bank would be compelled to make a constant effort to get gold and silver to meet the demands thus made upon it; and that if, in addition to a temporary over-issue of notes, the bank had also made imprudent advances of capital, or what, by a slight play of words, may be called "permanent investments," loans—that is to say, which there was no chance of being paid within a very long time—then, in addition to an expensive business while it lasted, the business itself would soon come to an end. Should a bank, in defiance of the check thus supplied by the very nature of convertible notes, and which no bank of issue could fail to experience day by day, go on forcing its notes into circulation, and giving reckless and imprudent credits in order that it might so force them into circulation, then there was nothing for it but that such a bank should fail, should go into the *Gazette*, and pass away like any other firm or trader who acted with equal folly and with equal disregard of his own obvious interest.

Such are the fundamental and more general principles of the Scotch banking system. It would be a vain thing to say that this system might not be improved. I think that, looking at the great utility and economy of the bank note, the impossibility of all noteholders in a populous kingdom being personally assured of the credit of every bank of issue, and the desirableness of guarding against groundless panics, the State might reasonably take one step more, and require that all notes, in addition to being convertible on demand, should be based on public securities. But this would obviously be a mere complement of the system, and would not disturb or impair in the least its essential principles. The theory of currency and banking as practised in Scotland was thus capable of every security. There was a check against the over-issue of notes, acting with all the steadiness and certainty of an economic law; there was a constant admonition to bankers in the daily action and reaction of their business against excessive and improper advances of capital; there was the responsibility, laid upon them as directly as upon the humblest trader in the community, that they must stand or fall by their own administration; and there was the possible provision to which I have adverted, by which, in the extreme event of failure, the noteholders at least would be secured against loss.

Well, this system, which was not built up in a day, but was the work of nearly two centuries, which was only developed after many errors and much dear-bought experience, and which had become the pattern of banking institutions in England and Ireland, and in many countries both of Europe and America, underwent a great innovation by the Act of 1844, and the supplementary Act of 1845. The Act of 1844 was entitled, "An Act to regulate the issue of bank notes, and to grant certain privileges to the Bank of England." There was the whole drift and object of the measure. It established an altogether new principle of issue, and it introduced certain inequalities, restrictions, and prohibitions into the common business of banking, which received further development in the Act of the following year. This Chamber having opposed these changes, what can be more proper than that now, after a trial of eighteen years, and when the commercial people of England are exclaiming against the injurious operation of these Acts, we should ask what has been gained by the new system, and how far its principles are superior in reason or in practice to those which they supplanted?

Before proceeding to this practical part of the question, permit me, without entering into details as to the privileges of the Bank of England and the restrictions and prohibitions introduced into banking in general, to state concisely wherein the two systems differ in their general policy. In the first place, there is an essential difference in the system of issue. Under what, for brevity sake, I will call the Scotch system, the issue of notes was limited to the amount which could be fairly absorbed in the

circulation without entailing upon the banks the necessity of constant or frequently recurring payments of their notes in gold and silver. Under the system of 1844, on the other hand, the issue of notes has been made to depend on the imports and exports of gold. The Bank of England is bound to take all bullion carried to the issue department, and to give out notes for it at the rate of £3:17/9 per ounce, an arrangement which importers of bullion are most ready to avail themselves of, since it gives them immediate command of money to the value of their bullion at the rate fixed in this country, without diminishing their power to take up the gold at a future date, when it can be sold to advantage for export. Practically, therefore, the issue of notes under the Act of 1844 depends upon the imports and exports of the precious metal—a measure of quantity which bears no relation whatever to the means of absorption in the circulation, which is sometimes found to give many millions of notes more than can be absorbed in the circulation, and which at other times sinks so near the level, or actually beneath the level of the circulation, that the Act has had twice to be suspended in order to permit an extra issue if demanded. In 1852, for example, when the Californian and Australian imports were rapidly accumulating, the unemployed notes in the banking department were within a trifle of being equal to the whole notes in circulation. Three years afterwards there were periods when the margin of unemployed notes was not more than two or three millions, and at the end of 1857 it had all but vanished. At the present moment there are £9,505,300 of notes in excess of the circulation, and it is a mere accident whether by October next, through the export of gold, which will certainly not be kept useless here if a market can be found for it elsewhere, the unemployed notes of the Bank of England will not be reduced to *nil*, and the Act, amidst great panic, have again to be suspended.

It is the fashion to talk of the Scotch system of issue being extremely loose, while that under the Act of 1844 is marked by great strictness and regularity. The very opposite of this is the case. On the Scotch principle no bank of issue could dream of having more notes than were found on the average to remain in circulation without bringing upon it awkward and expensive

demands for payment. The inherent tendency of the system was to limit the issue of notes with economic accuracy to the capacity of the circulation to hold them without depreciation, and consequently to the amount of gold and silver coin which might be expected to circulate were there no notes in existence. Under the Act of 1844, on the other hand, the issue of notes rises and falls with a certain import and export which is not only the most variable and irregular of all imports and exports, but which bears no more relation to the internal monetary circulation for which notes alone are required than the import and export of cotton, of tea, or any other commodity. Well, that is one great and marked difference betwixt the two systems.

The second and only other contrast to which I beg the attention of the Chamber is the entirely different index of the abundance or scarcity of loanable capital, which has been set up by the Act of 1844. Formerly it was the ordinary and regular deposits of the country—deposits made in the existing notes and coin of the circulation, that ruled the money-market, and that guided bankers and bill discounters in their advances of capital and in the rate of interest. A banker looked at the state of his own books, at the proportion of his outgoings and incomings, and the proportion with which notes were brought to him for deposit or for payment, and by each doing this for himself within his own sphere of business and observation, a general average was struck, as is done daily in every other market, as to the degree in which capital should be reserved or advanced, and as to the rate of interest that should be charged for such loans as there were demand for, and as it were deemed prudent to enter into. Now, however, the great rule of the money-market is the deposit of gold in the issue department of the Bank of England. The banking and commercial world are called upon to look steadily at the reserve of unemployed notes in the Bank of England, and as it rises or falls with the deposit or withdrawal of bullion from the issue department, to believe that there is abundance or scarcity of loanable capital, and that there is a necessity for the limitation of transactions, or the reverse. A mere fragment of the loanable capital, and that the most slippery and transitionary in its movements, has thus been set on a hill, so to

speak, and made to do service like a piece of mechanism for the great body of the loanable funds of the kingdom, with which it has little or no connexion. I believe country bankers are often profoundly astonished at the erratic and whimsical changes which take place in what is called "the London money-market." They look at the state of their funds, at the flow and ebb of their deposits, which are counted by hundreds of millions, and they can perceive no appreciable difference; but they learn that Rothschild or somebody has removed half a million of capital in gold from London to Paris or Vienna, and that one per cent. must be added to the rate of discount,—a welcome enough move when made in that direction, no doubt to them, but one which, looking at their own affairs, they cannot pretend to give any reason for. The deposits of bullion in the issue department, be it remembered, are chiefly imports from the mines, brought here not to circulate as money, but to be sold and distributed over all parts of the world. The effect of the legislation of 1844 has thus been to establish as the ruling index of the supply and demand of capital a most changeable and shifting fund which is not intended to rest here at all, which is only forced even temporarily into the form of money by the potent help of an Act of Parliament, and which is always of very trifling amount compared with the loanable funds of the kingdom—the Act of 1844, I say, has given us this as the rule by which loans and discounts are to be regulated, and our whole trade and industry to be buoyed or depressed, instead of, as formerly, the general and total outcome of the bank deposits of the country, which, though liable to changes from a bad harvest or extensive losses in trade, are, on the whole, marked by great certainty and permanence.

Well, these, in my opinion, are very radical and important distinctions in the two systems, and I think it must be admitted that, as far as reason and probability go, the chances of safety, of equilibrium, and of a prudent use of banking funds are all on the side of the old rather than of the new principles. The promoters of the legislation of 1844 no doubt aimed at a great reform. They were struck by certain evils which are inherent to some degree in all systems, and by certain excesses and defalcations which had occurred among the country banks of issue in

England, then struggling as our own Scotch banks had struggled in the last century through much ignorance and error to a more perfect knowledge and experience of the instruments they had to deal with, and fixing their attention upon these evils, they conceived a system by which they supposed that currency and banking would be placed securely beyond the reach of human folly and perversity for all time coming. There can be no doubt that their attention was concentrated upon the issue of notes as the source of all mischief. To secure the convertibility of the bank note was the central object of the changes they introduced, and to this day it is claimed, as the special triumph of the new system, that it has placed the payment of every bank note in gold and silver beyond the possibility of danger.

When this argument is brought forward there are two questions which are naturally to be asked. Was the convertibility of the bank note for all practical purposes in any doubt before the legislation of 1844? When was it heard that the notes of the Bank of England could not be cashed, unless during the period when the suspension of specie payments was ordained as a State necessity by law? Were the notes of the Scotch banks not daily converted on demand? It is altogether too narrow a basis of fact on which to overturn a whole system, that a number of private and joint-stock banks in England may have failed, and their notes have been unpaid.* These were exceptional evils for correction. They were not reasons for overturning a principle of issue, which was as nearly as possible perfect in its operation and its tendencies, and which every day's experience was rendering more clearly understood.

The second question is—In what respect the convertibility of the bank note is more secure under this legislation than it was before? It is quite true that as the average circulation of Bank of England notes is five or six millions more than the amount autho-

* The law permitting the formation of Joint-Stock Banks in England only dates from 1826. The object of the law of that year was declared by Lord Liverpool and Earl Ripon, to be the introduction into England of the system of banking adopted *with so much success* in Scotland—a success which had been abundantly proved by the inquiries of both Houses of Parliament following upon the crisis of 1825-6.

rised to be issued on the basis of Government Stocks, there is the certainty that when the banking reserve is exhausted, there will always be five or six millions of metal in the issue department to meet any run for gold. But, suppose that the unemployed notes and coin in the banking department are exhausted, or nearly exhausted, as we have often seen them, and that the Bank cannot discount another bill, it would nevertheless be still liable to demands from its noteholders and depositors; and if the banking and discounting houses of London, or the Scotch banks, as they did in the year 1857, were to come down upon it for a million or two millions of gold, the Bank would have to go out and gather up its own notes by selling Consols, and passing these into the issue department, bring out this inner treasure, which is supposed to be unapproachable. If, in these extraordinary circumstances, a panic ensued, every note brought to the counter would have to be paid till the five or six millions were drained out, and the doors of the Bank have to be closed. The position is no more impregnable than it was, and the convertibility of the bank note just rests, in its inner lines of defence, where it rested before—on the confidence of the noteholders and the forbearance of depositors.

It is unnecessary that I should occupy the Chamber by referring at any length to the monetary crises, the panics, the periods of commercial collapse and ruin which have marked the period during which these laws have been in operation. It is difficult to conceive any respect in which we have been better under the new legislation than we were before, apart from that progress in practical knowledge and experience which may be expected under all systems, and which was in full development before the Acts of 1844 and 1845 were passed. Three years after the adoption of these measures the country was involved in a crisis as severe, as overwhelming in its ruin of commercial firms and of private fortunes, and as lasting and exhausting in its effects as any which had gone before. The character of the pressure of 1847 was such as to place in the strongest possible light the folly of thinking to correct the excesses of speculation by any artificial regulation of the issue of notes, for I think it will now be admitted that nothing on the face of it could be more dangerous, or more certain to eventuate in pressure and bankruptcy, than to sink, in the

course of two or three years, hundreds of millions of banking funds in railways, which, however prosperous, could only be expected to repay the funds expended upon them by slow degrees, and after a long period of time. Yet this was done with the Act of 1844 in full operation, and with the countenance of Sir Robert Peel, of Lord Overstone, and other powerful men, who supposed that they had established a patent invention which would keep everything right, and who for that very reason may have been more indifferent than usual to those ordinary maxims of prudence and calculation which are of infinitely greater importance than any theory of currency.

The effects of the crisis of 1847 had scarcely passed away when the trade and commerce of the country were caught in a new and alarming drain of bullion, arising not from any over-speculation at all, but simply from the war expenditure of our own and other countries, and from the great and erratic movements in the precious metals caused by the substitution of gold for silver coin in France, and the large purchases of silver that had to be made in Europe for India and China. This took place in the winter of 1855-6, and two years afterwards burst forth that terrible storm in which great banking companies went to ruin, in which the rate of discount rose to ten per cent., and the Bank of England itself was reduced to the greatest possible straits. The general fact is, that in eighteen years we have had three great crises, with more or less the same characteristics—crises in which men of good credit, men even of real wealth, have become doubtful whether they would be able to discount their bills, in which property and goods of all kinds have been depreciated to an enormous extent, and hundreds of thousands of persons have been ruined. If, as Lord Overstone contends, these crises have not been of such long duration, and the price of Consols has not fallen so low as in former crises of the same kind, this is to be attributed, in my opinion, to the greater general wealth of the kingdom and the greater commercial facilities enjoyed now than in former times. In the crisis of 1825, triumphantly exclaims Lord Overstone, the lowest price of Consols was 75; in that of 1857, their lowest price was 86½. Nothing, in my opinion, is more explainable than this result. There is not only the fact

that Consols never attained so high a range forty years ago as they do now, but there is the further consideration that in periods of panic, when every kind of private stock is shaken, and when even deposit in a bank is not deemed secure, men of capital who are not involved in commerce naturally rally round the best and most solid of all securities, and that, in proportion as the number and means of such men increase, the price of this security may be expected to ride out the storm at a higher figure.

The frequency and severity of the crises which have occurred under the legislation of 1844 are points which may be confidently left, I think, to the experience of this Chamber; and I will only add before dismissing this part of the subject that it is impossible, in the nature of things, that that legislation, so far from mitigating, could have any other effect than to aggravate that particular form of monetary and commercial visitation. When imports of gold accumulate, and the reserve of the Bank of England is doubled or trebled by the issue of notes, as we see in part at the present moment, every temptation is held out by liberal and easy discounts to speculate, to over-trade, and to engage in doubtful enterprises, till at length the obligations of all parties in business are greatly extended; but when the reverse action sets in, and the inevitable dispersion of the stock of bullion takes place—a dispersion which the previous liberality and competition in discounting tend directly to hasten and produce—then the visible foundation on which the superstructure of credit has been raised is withdrawn, the policy of money-lenders becomes as jealous and restrictive as it was formerly the reverse, and a pressure ensues which ends in utter want of confidence, and finally in alarm, by which the actual evil, whatever it may be, is incalculably intensified and increased. The partisans of this system may affect to laugh at panic as the result of ignorance, but panic is a common infirmity of mankind, and when men engaged in commerce, owing large sums of money and having large sums owing to themselves, see from week to week the mysterious reserve of the Bank of England falling to two millions, one million, or half a million, and hear the roar of the rising agony in the London money-market, the discount houses calling upon the Bank of England for some

assurance of assistance which the Bank is obviously unable to give, it is impossible but that the wisest of them shall have some twitches of panic in such circumstances, and that panic shall have its usual result—every man paying as little as he can help, and gathering as much money into his own hands as he can clutch, and thus multiplying in self-defence the evil which has fallen upon the general body. It is the very essence of the dissolving view which is periodically presented under the Act of 1844 to produce tremor, and with tremor a hoarding of notes by which the final blow is given to a tottering fabric of credit and a struggling circulation. It is a reasonable, and I think a very serious objection to our monetary system that at certain stages men cannot look it straight in the face without growing pale with terror, and raising a general cry of *sauve qui peut!* But I must pass on to a more permanent and at the present moment more immediately practical feature of the system. I mean the extraordinary and perplexing fluctuation of the rate of discount. It is not a periodical crisis and panic only, though that is fearful enough, that there is reason to complain of, but a chronic uncertainty and derangement which affects every branch of business every year and every month of the year.

The rate of discount, I need not say, forms as material an element in the conduct of business as the wages of labour, the price of raw material, the rent of buildings, the tear and wear of machinery, or any other constituent part of the cost of production and exchange. Well, what is the experience of the rate of discount under the existing arrangements? In 1860 there were 11 changes of the rate of discount, and in 1861 there were again 11 changes of the rate of discount. It appears to be a settled result of the system that there must be a change of the rate of discount for nearly every month of the year, and the range of fluctuation to which we are now accustomed is from 2 to 10 per cent. Now, imagine any commodity, any service, or value known among men—say cotton, even under all the obstruction of a raging civil war and a general blockade in the ports from which the great bulk of the supply has been received—being subject to the same frequent fluctuation, and rising and falling in the course of a few months from 400 to 500 per cent., and say what the chance would be of dealing in such a commodity, or of carrying on any

business into which it entered as an essential element of profit and loss. I contend that this fluctuation of the rate of discount is an utter monstrosity, and that it bears on the face of it the evidence of some unnatural and grotesque derangement of economic laws. A variation in the rate of discount, as the supply and demand of loanable capital vary, is, of course, to be looked for. A bad harvest, as that of last year, may entail an extra expenditure on foreign wheat alone of 15 millions sterling. But 15 millions form but a small part of the loanable capital of such a country as this, and under the bad harvest of last year we have this curious result that while the price of wheat, the article in which the scarcity existed, rose only 25 per cent., the money, a small part of which formed one of the means by which the foreign supply of wheat had to be paid, rose no less than 300 per cent.! Were all the effect of a bad harvest upon the money-market simply to reduce the Bank deposits of farmers and of the consumers of bread by 15 or even 30 millions, it is impossible that so great an advance of the rate of discount as this could ensue; but when, in addition to so much loss of a portion of the fund that would have found its way into the loan market, you have established a system under which the withdrawal of a few millions of bullion for so necessary and vital a purpose as the purchase of food not only diminishes to an equal amount the notes which are the instruments for circulating this fund, but is regarded as a calamity which the Bank must retard or counteract by the indirect force of rapid and violent advances of the rate of interest, the case is entirely changed, and the effect on the loan market must be incalculably increased.

The excessive fluctuations of the rate of discount, with which we are now so unhappily familiar, are so clearly and indisputably the result of the present monetary laws that the argument may be stated with a logical precision which it is impossible in my opinion to resist. What is the rule at present by which the rate of discount rises and falls? The great barometer of the money market, as we all know, is the reserve of unemployed notes in the Bank of England, and this reserve increases or diminishes as gold is lodged in or withdrawn from the issue department. Of course, there are other elements to be taken into account. There are the notes, for example, in circulation, but as these vary very little,

being seldom below 19 millions and never much above 20 millions, the difference thus made on the reserve is not very material. Then, there is the demand for discounts, and the proportion which the money lent on discount or "private securities" bear to the deposits, to be taken into account; but as it almost invariably happens that as the private securities held by the Bank increases the deposits also increase, this element also is reduced practically to nothing. So that the Bank's reserve of unemployed notes is affected chiefly or wholly by the lodging and withdrawal of bullion in the issue department, or in other words by the imports and exports of gold. The syllogism therefore stands thus:—Your rate of discount goes up and down as the reserve of unemployed notes in the Bank of England goes up and down; the reserve of unemployed notes goes up and down with the import and export of gold, with the excess of the one of these over the other; the import and export of gold are as variable as the course of ships from Australia, as the openings over the wide surface of the globe for the disposal of the varying produce of the mines, and as the winds of heaven; and so it follows, as conclusively as any problem in Euclid, that the rate of discount must be equally variable.

There is no escape from this fluctuation as long as the law of 1844 continues to be the monetary law of this country. Though gold-fields were to be discovered in every quarter of the world, though the products of the mines were to be doubled, trebled, or quadrupled, yet the unsteadiness of our money-market would not be diminished in the least. On the contrary it would be increased, not only in the sense of an accumulation of the precious metals, but because of the more active trade and industry of every nation in the world, the greatly increased and extended transactions that must necessarily ensue in bullion, and the varying proportions which the stock of bullion here must consequently bear at one period as compared with another.

But to sum up these remarks, I have thus far attempted to show that the Act of 1844 introduced a most marked innovation into our system of currency and banking, that that innovation, when narrowly examined, was more likely by all human reason to lead astray from the ends which it professed to have in view than the system which it swept away, that in point of fact it has

not made the bank-note more really convertible than it was, that it has given us a loose and irregular system of issue instead of one adapted with prudence and exactness to the actual circulation, that it has not saved us from imprudent extensions of credits, from crises and panics, but on the contrary has rather aggravated these evils, and that it has been marked by a fluctuation of the rate of discount which is unprecedented and intolerable; and now I think the Chamber will agree with me that it would require some very commanding reason, some irresistible argument, to justify an innovation of this nature, or to refuse any longer that fair and thorough revision which it was one of the stipulations under which it was passed into law, indeed, that it should receive. I have read, with great anxiety to be enlightened, the numerous defences which have been made by Lord Overstone, and I find always the one same specious commonplace, expressed in almost the same words which the noble Baron must long since have got by heart, and which has been repeated in the same familiar phrase by his Lordship within the last few weeks in a correspondence with Mr Brookes, Secretary of the London Bank Act and Currency Committee. The proposition of Lord Overstone is, "that a paper currency should fluctuate as a metallic currency would fluctuate." Now, while the simple convertibility of the bank-note secures this adaptation as perfectly as can be desired, the ridiculous and stultifying position of Lord Overstone is that his great axiom does not apply at all to the system of which he is the most persevering and perhaps the most able defender. Will Lord Overstone pretend for a moment that under a purely metallic currency the millions of bullion which have been arriving in this country of late would instantly have been coined into sovereigns, and the unemployed money in the Bank of England swelled as it has been under the present system of issue, to upwards of ten millions above the actual circulation? Let any man consider what the operation would be under a strictly metallic currency, and he will perceive at a glance the egregious fallacy by which the present system has been imposed on the kingdom. Gold would be imported into London as any other commodity is imported. It would be there simply waiting for a market at home or abroad. It would be dealt in by the dealers

in foreign exchange for the purpose of balancing their transactions with the various centres of commerce, but beyond the amount which might be bought by the banks to be coined when the coinage was deficient, it would have no other action upon the monetary system than that of any other commodity or any other part of the fixed capital of the country. This is what would take place under a purely metallic currency, and if our currency of paper is to fluctuate as a metallic currency would fluctuate, we must return to the Scotch principle of issue, which not only limits the issue of notes to the amount that can be retained in circulation at a par with coin, but by the obligation of convertibility on demand, establishes a natural and solid link betwixt the money of this and of other countries, and effects all those purposes of regulation and correction of the exchanges which loom so largely in the theories of the upholders of the present system. It is quite true that the manufacture of notes which goes on under the present law is an idle form. No mortal power could ever press the ten millions of unemployed notes now lying in the Bank of England into circulation, but the fact that these notes are wholly unnecessary is a strong argument against their issue, and a conclusive reason why for no end at all the monetary system should not be constantly muddled, and the trade and industry of the kingdom, in addition to all its other causes of perturbation, be deranged and shaken by the intrusion of an altogether extraneous and artificial element. I am not aware that any other argument ever has been or can be used in defence of the present system than that which I have shown to be so easily refuted. Yet it was for this sole and single purpose of expanding and contracting the issue of paper with the imports and exports of bullion—a purpose for which no reason can be given that does not belie itself at the first test of truth—that all those changes were introduced into the banking system which strike every understanding as anomalous and inconsistent with the free competition which obtains in every other branch of business. It was for this purpose that banks of issue were prohibited, that certain privileges were granted to the Bank of England, that the banks of Scotland and Ireland were gratified by a monopoly while reduced to a mechanical subjection, and that no bank can

exist in England that has not a branch of the Bank of England in the same street, in whose money it must deal, and with which it forms practically one establishment.

I will not dwell a moment on provisions which are so contrary to the acknowledged principles of business, but will conclude by referring the Chamber to the chapter in the second book of Adam Smith's *Wealth of Nations*, which it seems to me impossible to read and re-read without increasing amazement that Sir Robert Peel, the Imperial Parliament, and a large portion of the commercial men of this country should have allowed themselves to be seduced from the clearest and soundest principles, and from the most perfect blending of science and experience that has probably ever illustrated any department of human affairs. In that chapter, after showing the true nature and place of money in the economic system, how paper money arose, how its convertibility checked every excess of issue and brought back the banks to the true and solid rules both of issue and banking, our great authority in political economy winds up with these words, which are the practical sum and outcome of the whole question :—" If bankers are restrained from issuing and circulating bank notes or notes payable to the bearer, for less than a certain sum, and if they are subjected to the obligation of immediate and unconditional payment of such bank notes as soon as presented, their trade may, with safety to the public, be rendered in all other respects perfectly free."

UNANIMOUS RESOLUTION OF THE CHAMBER.

"That the Chamber recommend the Directors to take into their consideration the Laws regulating Currency and Banking."

GILCHRIST, PRINTER, HOWARD STREET.

END OF TITLE